

RATHBUN AREA MENTAL HEALTH CENTER

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2005

**Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265**

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RATHBUN AREA MENTAL HEALTH CENTER

BOARD OF DIRECTORS

June 30, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Officers -		
Dennis Ryan	President	
Larry Bettis	Treasurer	
Cathy Reece	Secretary	
Appanoose County -		
Larry Bettis	Board Member	June, 2005
William Bostwick	Board Member	June, 2005
Dean Kaster	Board Member	June, 2005
Steve Kerber	Board Member	June, 2005
Lucas County -		
Richard Arnold	Board Member	June, 2005
Kathy Egbert	Board Member	June, 2005
Cathy Reece	Board Member	June, 2005
Monroe County -		
Diana Shehan	Board Member	June, 2005
Dennis Ryan	Board Member	June, 2005
Steve Kerber	Board Member	June, 2005
Wayne County -		
Ann Garber	Board Member	June, 2005
Don Greenlee	Board Member	June, 2005
Mendy Middlebrook	Board Member	June, 2005
Designated Directors -		
Appanoose - Dean Kaster	Board Member	June, 2005
Lucas - Cathy Reece	Board Member	June, 2005
Monroe - Dennis Ryan	Board Member	June, 2005
Wayne - Don Greenlee	Board Member	June, 2005
David Hook	Executive Director	

Rathbun Area Mental Health Center

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Independent Auditor's Report

To the Board of Directors of
Rathbun Area Mental Health Center:

We have audited the accompanying statement of financial position of Rathbun Area Mental Health Center as of June 30, 2005 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rathbun Area Mental Health Center at June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2005 on our consideration of the Rathbun Area Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The supplemental information included on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

September 30, 2005

Financial Statements

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit A

STATEMENT OF FINANCIAL POSITION

June 30, 2005

	Current Fund	Land, Building, and Equipment Fund	Total
	Unrestricted		
ASSETS			
Cash and cash equivalents	\$ 74,421	\$ -	\$ 74,421
Accounts receivable - patients services, less allowance for doubtful accounts (\$0)	38,208	-	38,208
Reimbursements receivable - contracts and grants	23,969	-	23,969
Prepaid expenses	4,484	-	4,484
Property and equipment at cost, less accumulated depreciation of \$88,127 (Note 2)	-	21,726	21,726
Total assets	\$ 141,082	\$ 21,726	\$ 162,808
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 1,432	\$ -	\$ 1,432
Compensated absences	4,431	-	4,431
Note payable	3,800	-	3,800
Total liabilities	9,663	-	9,663
Net assets - unrestricted	131,419	21,726	153,145
Total liabilities and net assets	\$ 141,082	\$ 21,726	\$ 162,808

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit B

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	Current Fund	Land, Building, and Equipment Fund	Total
	Unrestricted		
PUBLIC SUPPORT AND REVENUES			
Public support -			
County appropriations	\$ 181,565	\$ -	\$ 181,565
Community Mental Health Services Block Grant	32,760	-	32,760
Donations	1,925	-	1,925
	<u>216,250</u>	<u>-</u>	<u>216,250</u>
Revenues -			
Patient fees and Title XIX	231,267	-	231,267
Rent income	1,760	-	1,760
Miscellaneous	1,001	-	1,001
Investment income	120	-	120
	<u>234,148</u>	<u>-</u>	<u>234,148</u>
Total public support and revenues	<u>450,398</u>	<u>-</u>	<u>450,398</u>
EXPENSES			
Program services - Mental Health Center Programs	<u>399,946</u>	<u>4,789</u>	<u>404,735</u>
Changes in net assets from operations	50,452	(4,789)	45,663
OTHER CHANGES			
Property and equipment acquisitions	(5,369)	5,369	-
Net assets beginning of year	<u>86,336</u>	<u>21,146</u>	<u>107,482</u>
Net assets end of year	<u>\$ 131,419</u>	<u>\$ 21,726</u>	<u>\$ 153,145</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit C

**STATEMENT OF FUNCTIONAL EXPENSES -
MENTAL HEALTH CENTER PROGRAMS
Year Ended June 30, 2005**

Salaries and related expenses -	
Executive director	\$ 30,000
Professional staff salaries	128,848
Support staff salaries	54,333
FICA	16,496
Health insurance	10,834
Unemployment	2,241
Total salaries and related expenses	<u>242,752</u>
 Psychiatric	 99,600
Audit	1,845
Travel	13,029
Staff training	230
Telephone	5,527
Supplies/postage	8,806
Insurance	7,867
Facilities expense	11,080
Repairs	333
Janitorial	615
Utilities	4,353
Interest/fees	814
Advertising	380
Lease charges	1,988
Computer expense	180
Miscellaneous	547
	<u>157,194</u>
Total expenses before depreciation	399,946
Depreciation	4,789
Total expenses	<u>\$ 404,735</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

Exhibit D

STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

Cash flows from operating activities -	
Cash received from Counties	\$ 185,430
Cash received from Block Grants	31,278
Cash received from patient fees and Title XIX	223,715
Cash received - rent income	1,760
Settlement	3,433
Interest received	120
Donations	1,925
Miscellaneous	1,001
Cash paid to employees and suppliers	<u>(403,109)</u>
Net cash provided by operating activities	<u>45,553</u>
Cash flows from investing activities -	
Purchase of property and equipment	<u>(5,369)</u>
Net cash used by investing activities	<u>(5,369)</u>
Cash flows from financing activities -	
Repayment of mortgage payable	(19,519)
Repayment of note payable	<u>(1,200)</u>
Net cash used by financing activities	<u>(20,719)</u>
Net increase in cash	19,465
Cash and cash equivalents at beginning of year	54,956
Cash and cash equivalents at end of year	<u>\$ 74,421</u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ 50,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in accounts receivable - settlement	3,433
(Increase) in accounts receivable - patient services	(7,552)
Decrease in reimbursements receivable - contracts and grants	2,383
(Increase) in prepaid expenses	(2,270)
Increase in accounts payable	1,432
(Decrease) in compensated absences	<u>(2,325)</u>
Net cash provided by operating activities	<u>\$ 45,553</u>

See notes to financial statements.

RATHBUN AREA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Rathbun Area Mental Health Center (Center) is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Appanoose, Lucas, Monroe and Wayne Counties.

The Center is exempt from income tax under Section 501(c) (3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

Current Fund – The unrestricted fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for unrestricted amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for any designations within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the statement of financial position.

Land, Building and Equipment Fund – The land, building and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, building or equipment for use in the operations of the organization.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Note 1. Summary of Significant Accounting Policies (continued)

Purchases of property and equipment providing future benefits are directly charged against the current unrestricted fund balance and capitalized in the land, building and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets and Liabilities

The following accounting policies are followed in preparing the statement of financial position.

Cash and Cash Equivalents – The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables – Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Property and Equipment – Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 5 to 20 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences – Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2005.

F. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Total Column

The total column on the statement of financial position and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Property and Equipment

A summary of property and equipment follows:

	Balance End of Year
Land, Building and Improvements	\$ 68,995
Furniture and fixtures	<u>40,858</u>
Total cost	109,853
Less accumulated depreciation	<u>88,127</u>
Net	\$ <u>21,726</u>

Note 3. Note Payable

The Center borrowed \$7,000 in May 2001 to fund the purchase of a new roof. The note is unsecured, and is to be repaid in 70 monthly payments of \$100 beginning in August 2001. There is no interest charged on this loan.

The note maturities for this note payable are as follows:

Year ended <u>June 30,</u>	<u>Amount</u>
2006	\$ 2,700
2007	<u>1,100</u>
	<u>\$ 3,800</u>

The Center is currently delinquent on this note.

Note 4. Mortgage Payable

The Center has a mortgage on the building; however, in fiscal year 2005, it was paid off.

Note 5. Lease Commitments

Office Space

Leases of office space are cancelable or will expire within the next fiscal year.

Rental expense for the use of office space for the year ended June 30, 2005 was \$10,115.

Copiers

The Center is leasing office equipment. The leases provide for 60 monthly payments of \$165.61.

Total rent expense for the office equipment for the year ended June 30, 2005 was \$1,988.

Future rental payments required by the lease terms are:

Year ended <u>June 30,</u>	<u>Amount</u>
2006	\$1,696
2007	822
2008	822
2009	<u>548</u>
Total	<u>\$3,888</u>

Note 6. Risk Management

Rathbun Area Mental Health Center is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Supplemental Information

RATHBUN AREA MENTAL HEALTH CENTER

Schedule 1

COMPARISON OF BUDGET TO ACTUAL
Year Ended June 30, 2005

	BUDGET	ACTUAL	(OVER) UNDER BUDGET
REVENUES			
Fee income and other	\$ 172,520	\$ 231,267	\$ (58,747)
Community Mental Health Services Block Grant	34,152	32,760	1,392
County appropriations	186,784	181,565	5,219
Donations	-	1,925	(1,925)
Miscellaneous	-	1,001	(1,001)
Investments and rent income	1,920	1,880	40
Total revenues	<u>395,376</u>	<u>450,398</u>	<u>(55,022)</u>
EXPENSES			
Salaries and related expenses -			
Executive director	30,000	30,000	-
Professional staff salaries	109,154	128,848	(19,694)
Support staff salaries	53,021	54,333	(1,312)
FICA	13,659	16,496	(2,837)
Health insurance	9,791	10,834	(1,043)
Unemployment	600	2,241	(1,641)
Total salaries and related expenses	<u>216,225</u>	<u>242,752</u>	<u>(26,527)</u>
Psychiatric	113,750	99,600	14,150
Audit	1,945	1,845	100
Travel	11,130	13,029	(1,899)
Staff training	695	230	465
Telephone	6,600	5,527	1,073
Supplies/postage	6,200	8,806	(2,606)
Insurance	10,800	7,867	2,933
Facilities expense	10,540	11,080	(540)
Repairs	1,000	333	667
Janitorial	715	615	100
Utilities	6,336	4,353	1,983
Books and subscriptions	250	-	250
Promissory and building note	4,700	-	4,700
Interest/fees	-	814	(814)
Advertising	250	380	(130)
Lease charges	2,000	1,988	12
Computer expense	240	180	60
Miscellaneous	2,000	547	1,453
	<u>179,151</u>	<u>157,194</u>	<u>21,957</u>
Total expenses before depreciation	<u>395,376</u>	<u>399,946</u>	<u>(4,570)</u>
Depreciation	-	4,789	(4,789)
Total expenses	<u>395,376</u>	<u>404,735</u>	<u>(9,359)</u>
Changes in net assets	<u>\$ -</u>	<u>\$ 45,663</u>	<u>\$ (45,663)</u>

See accompanying independent auditor's report.

RATHBUN AREA MENTAL HEALTH CENTER

Schedule 2

STATEMENT OF FINANCIAL POSITION DETAIL
June 30, 2005

June 30, 2005

DETAIL OF ACCOUNTS RECEIVABLE, PATIENT SERVICES

Centerville patients	\$ 13,111
Chariton patients	7,199
Corydon patients	8,774
Albia patients	9,124
	<u>\$ 38,208</u>

DETAIL OF REIMBURSEMENT RECEIVABLE - CONTRACTS AND GRANTS

Appanoose County	\$ 5,061
Lucas County	3,865
Wayne County	2,845
Monroe County	3,298
Community Mental Health Services Block Grants	8,900
	<u>\$ 23,969</u>

See accompanying independent auditor's report.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors of
Rathbun Area Mental Health Center:

We have audited the financial statements of the Rathbun Area Mental Health Center, Centerville, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rathbun Area Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Rathbun Area Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Rathbun Area Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of Rathbun Area Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Rathbun Area Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

September 30, 2005

RATHBUN AREA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

- (1) Receipts – Even though monies are received throughout the month, instances were noted where the receipts were held 2-3 weeks prior to deposit. For better control purposes, receipts should be deposited to the bank more timely.

Recommendation – The Center implement procedures to ensure receipts are timely deposited to the bank, preferably daily or when cash and checks on hand exceed \$100.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- (2) Invoices – Some instances were noted where the Center failed to retain invoices prior to the payment of the related disbursement. In addition, instances were noted where an employees expense account was not approved by the Executive Director prior to the payment of the disbursement.

Recommendation – The Center retain all invoices, and ensure all travel expenses are approved by the Executive Director prior to payment.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Other Findings Related to Statutory Requirements and Other Matters

- (1) Payroll – Instances were noted where the employees kept their own compensatory time records, and were not turned in to the Center. Consequently, the Center was unable to determine how many compensatory time hours were earned and unused at any one time.

In some cases, written authorization for employee pay rates could not be located. An instance was noted where an individual was underpaid. Some non-exempt employees do not keep timesheets.

Recommendation – The Center maintain compensatory time for all employees, maintain written authorization for employee pay rates, ensure all employees are properly paid, and require all non-exempt employees to keep timesheets which should be turned into the Center on a bi-weekly basis.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- (2) Employee Reimbursement – Some employees were reimbursed for insurance cost; however, the Center does not require proof that the individuals have purchased insurance with those funds.

Recommendation – The Center require proof that employees purchased insurance on all insurance reimbursements.

RATHBUN AREA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

Response – We will review this recommendation.

Conclusion – Response accepted.

- (3) Uncollectible Accounts – The Board does not approve of the dollar amount of the bad debt written off. In addition, before write-off, the Board should consider turning the delinquent accounts over to a collection agency for collection.

Recommendation – The Board approve of the dollar amount of bad debt written off. In addition, the Board should consider turning over the delinquent accounts to a collection agency.

Response – We will discuss this situation.

Conclusion – Response accepted.

- (4) Budget – Expenses for the year ended June 30, 2005 exceeded the budget amounts.

Recommendation – The budget should be amended before expenses are allowed to exceed the budget.

Response – We will implement this recommendation in the future.

Conclusion – Response accepted.